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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
2 December 1954

TO: Deputy Director (Intelligence)

SUBJECT: Comments on Article in K. deCourcy's Intelligence Digest of October 1954, "A Soviet Trade Warfare Conference" (attached)

1. General Evaluation

This article appears to be largely a fabrication. Although certain specific statements probably have some basis in fact, they have been presented in what we believe to be a fictionalized context. The article contains basic errors of both fact and logic. One of the more obvious examples of the former is the allegation that Vice Chairman of the USSR Council of Ministers, Anastas Mikoyan, was a member of the Soviet delegation to the "Sochi" conference which took place from 5 to 9 July.

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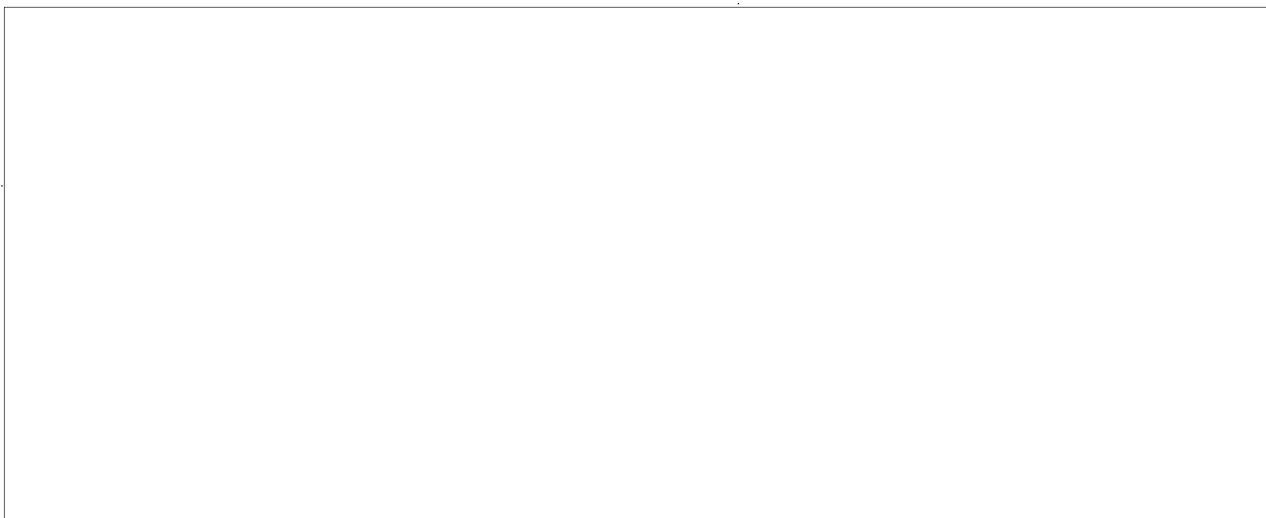
3. Plausibility of Conference Agenda

It seems highly unlikely that Soviet leaders would just be awakening in June 1954 to the need for a "study of world economic conditions in the light of the political interests of the USSR" or would at that late date be working out means "to put trade more directly in the service of Soviet foreign policy." Traditionally these matters have been of major concern to Soviet leaders and have been under continuing study by Soviet economists and theorists throughout the post-World War II period. These very issues have consistently been a major target of the Economics Institute of the USSR Academy of Sciences, which contains the leading Soviet experts on capitalist economic developments, including Varga

It is our view that the conceptual aspects and the appreciation of the foreign policy potential of foreign trade which underlie the present foreign economic policy of the USSR had been established before Stalin's death and were, to a degree, reflected in his theoretical work, Economic Problems of Socialism in the USSR. The "policy" advised by the July conference at Sochi basically represents little more than a statement of the policy which has actually been implemented by the Soviet Union since early 1953.

4. Jurisdiction of Conference and of "Common Council for Trade Warfare"

Even assuming, however, that these issues suddenly in June 1954 constituted a major problem for co-ordinated study by the bloc, it seems strange that an ad hoc conference of the character described in the reference article would have been empowered to handle them. The Council of Mutual Economic Assistance provides an established and logical mechanism for such considerations and insofar as there have been co-ordinated official studies and discussions of East-West economic relations, they apparently have developed under the aegis of CEMA's formalized channels.



In March of this year the Soviet press reports noted that East-West trade had been on the agenda of the CEMA meeting held in Moscow 26-27 March 1954. These March discussions probably set the stage for the proposed June meeting noted previously.

It therefore seems evident that co-ordination of bloc policy in East-West economic relations--at least in the broader aspects--has long been and continues to be a function of CEMA. In light of this, it seems highly unlikely that the by-product of this hastily called, ad hoc conference--the so-called "Common Council for Trade Warfare"--would be granted such sweeping powers of co-ordination over bloc participation on East-West trade as indicated in the reference article. Such functions and responsibilities would seem to be already vested to a large degree in CEMA and any enlargement of co-ordinating jurisdiction would logically fall to that organization.

5. Expectation of Western Economic Crisis

The "findings" of the subcommissions at the reported Sochi conference appear to represent primarily the source's personal embellishment and interpretation of the standard prognosis of Soviet economists for Western economic development. The "conclusions" and "advice" of the subcommissions represent possible conclusions logically derivable from the contents of Soviet economic journals during the past 13 months--that is, since the beginning of the decline in US production levels in mid-1953. Such conclusions, however, would have been available to Soviet policy-makers through the Economics Institute of the USSR Academy of Sciences since at least October 1953. It would hardly be necessary to call a special conference to reaffirm them.

The implication in the reference article is that suddenly in June the Soviet leaders awoke to the implications of an economic crisis in the West and resolved to make this the focal point of their economic policy toward the West during the next two years. We feel that this is an extreme oversimplification of the multiple considerations affecting the formulation of Soviet policy for economic relations with the West and ignores the marked degree of continuity in this policy over the past two years.

It is but a truism to say that Soviet economists expect an economic crisis in the United States in particular and in the West in general. The recurrence of periodic crises of overproduction in capitalist countries is hallowed Marxist dogma. Indeed, Soviet economists are no longer merely expecting an economic "crisis" in the United States, but now actually hold that this cyclical crisis of overproduction has already arrived and has been in progress since mid-1953.

According to Marxist-Leninist theory, the general crisis of capitalism, which will ultimately terminate in the collapse of the entire capitalist system, began in the period of the first World War, and continues in full swing at the present time. In the course of this general crisis there inevitably occur, with everincreasing frequency and intensity, periodic cyclical crises of overproduction--i.e., depressions such as those of 1929-33 and 1937-38. The historical sequence of this development, according to recent Soviet writings, is roughly as follows--the period from World War I to World War II constitutes the first phase or stage of the general crisis of capitalism; World War II, which resulted in the collapse of the single, universal world market and the rise of a parallel and eventually competitive "world democratic market", heralded the second phase or stage of the general crisis; the US "depression" of 1948-49 which "drove the US to initiate the Korean war" represents the first of the cyclical "crises" in the new phase; as of 1954 the US, eventually to be followed by the rest of the Western world, has already entered upon the second cyclical "crisis" of overproduction in this second phase of the general crisis of capitalism.

So much for theory. The real problem before the Soviet leaders and economists, however, is precisely what the extent and duration of a particular crisis will be, what precisely will be its impact on the strength of the West and what practical implications will it have for Soviet foreign policy. On this score the Soviet view, as reflected in authoritative journals and official statements, has in the past been frequently in error and is currently rather cautious and inconclusive. The most recently available article illustrating this is by Eugene Varga, "Manifestations of Crises in the US Economy and Their Effect on Other Capitalist Countries", published in the first (August 1954) issue of the new Soviet journal Mezhdunarodnaya Zhizn' (International Life). In this article Varga argues to the following conclusions -

- (1) that at present, in 1954, there are unquestionable signs of an overproduction crisis in the US;
- (2) that the US Government can and will aid monopolies by various measures, but cannot retard further development of the crisis;
- (3) that the overproduction crisis in the US will have a harmful influence on the economy of other capitalist countries.

In the first part of the article, however, Varga takes pains to point out that such periodic crises of over-production are of a temporary character only. For example, he poses the question, "Why does this contradiction between production and consumption not stir up a permanent over-production crisis?" and answers, "The fact is that the over-production crises contain in themselves the potentiality for their termination." Later in the article he puts forth the proposition that

"... the contradiction between the capitalist attempts for the unlimited expansion of production and the narrow margin for purchasing power of capitalist society caused by the proletarian status of the masses, inevitably leads to periodic overproduction crises, which permit this contradiction to exist for a limited period of time, creating conditions for the beginning of a new cycle.(italics supplied)"

This exposition by Varga seems hardly in line with the dramatic role he is alleged to have played at the "Sochi" conference, and it is noteworthy that the preparation of the article and the "conference" would just about coincide in time.

Analysis of postwar Soviet writings and statements on the development of economic crises in the West suggests that Soviet views of the immediate future course of events in the capitalist economy were not a decisive consideration in the formulation of present Soviet foreign economic policy. This policy, which we believe to have been developed in late 1952 and early 1953 and which has been carried out with a marked degree of continuity and consistency since that time, derived not so much from Soviet evaluation of where the West was going economically in the next few years as it did from where the Soviets felt they must go during that period. It seems unlikely to us that present Soviet policy is predicated upon an anticipation of imminent collapse of the American and Western economies, or that efforts to bring about such a collapse are a major determinant therein.

In line with the broad, long-range perspective outlined in Stalin's Problems--which we believe continues to provide the theoretical context for present Soviet foreign economic policy--the Soviet policy-makers undoubtedly view the present economic difficulties in the West as definitely to their advantage and exploitable for tactical gains both in

the economic sphere, e.g. by improving Soviet opportunities for gain and influence in international trade, and in the political sphere, e.g. by aggravating differences among Western nations on the issue of economic relations with the Soviet bloc. It is not evident, however, from either Soviet statements or Soviet writings that they anticipate that present economic developments in the West will result during the near future in a major shift of the balance of economic power between the two systems in favor of the USSR. This is not to say that the Orbit would not welcome such a situation should it develop, but rather that it is too indefinite and uncertain a matter upon which to base immediate policy and tactics. In view of the urgent needs of the Soviet bloc internal economies and the present commitment of economic resources therein, it is probable that the Soviet leaders are well aware that they possess little economic capability to control or substantially alter--as distinct from the capability to exploit--the course of economic developments in the capitalist economy.

It is our opinion that the Soviet leaders are no better informed and probably no more certain of the precise course of economic developments in the United States and Western Europe than are Western statesmen. Since the day of the supreme and omniscient theorist at the head of the Soviet state is apparently past, the present leaders undoubtedly must rely extensively upon analysis by competent Soviet economists for evaluated assessments on capitalist economic developments. These assessments can only be based upon the masses of complex and frequently contradictory data available on the subject--precisely the same data as utilized by Western economists with such widely differing results.

6. Trade as a Political Weapon

The "final conference memorandum" on this point, as described in the deCourcy article, is apparently an imaginative but oversimplified and disjointed patchwork of features of the Soviet bloc's East-West trade policy frequently highlighted in the Western press. The presentation made in the article is not believed to be a reliable statement of the contents of any actual bloc policy memorandum.

We would take exception to the point supposedly made in this "final" memorandum that the Soviets consider foreign trade as almost exclusively "a weapon in the political fight." Our view is that Soviet economic policy toward capitalist states has traditionally been motivated by a hybrid

of economic and political considerations. By and large, however, one paramount economic fact--the need to import to make good deficiencies in the bloc economies--has dominated the foreign economic policy of the USSR. Soviet policy-makers have indeed been alert to exploit the political opportunities presented by their foreign trade programs, but they have shied away from using economic measures for political purposes when the economic costs have been high. As the Soviet economy continues to grow, the USSR will become more capable of and probably more disposed toward indulging in this luxury. The scale of politically-motivated economic programs, which in the near future will be relatively modest, will be limited to situations which would offer high political rewards while imposing little strain on the Soviet economy. In the judgment of the Soviet policy-makers, both of these criteria may apply in the under-developed economies of non-Communist Asia and the Middle East.

The general strategy of Soviet foreign economic policy, even under the conciliatory atmosphere promoted by the post-Stalin regime, has continued to be dominated by the USSR's internal economic needs. This has been clearly reflected in the modifications of the Soviet trade pattern in the past year and a half. Heavily committed to giving the domestic consumer a "better break," the Soviet government has diverted a significant share of its most marketable agricultural exports to the domestic market, while at the same time importing a heavier volume of consumer goods from the non-Communist world. As a result of these decisions, the USSR has been obliged to export increased quantities of semi-strategic goods--manganese, chrome, petroleum.

These developments have arisen from decisions by the Soviet government on a revised scale of priorities for the internal Soviet economy. They have, of course, been fully exploited for their political usefulness in supporting the coexistence theme of Soviet foreign policy and stimulating West European opposition to the COCOM and CHINCOM controls on East-West trade. But it is unlikely that the prospects of international political gains carried great weight in the Soviet councils considering revision of the foreign trade program. More forceful was the necessity to import to supplement the domestic supply of goods required for the Soviet new course.

The USSR's attempts to make political capital from this situation have taken several forms. The most significant is the propagandists' statements that the new Soviet interest in Western consumers' goods demonstrates the peace-loving intent of the USSR and the sincerity of the Soviet

claim that unrestricted East-West trade would ease international tensions. This theme, supplemented by the bait offered to West European businessmen in the form of large-volume Soviet orders, has served to stimulate influential political pressures within West Europe for relaxation of COCOM and CHINCOM restrictions. In turning economic measures to political effect in this fashion, however, the USSR is promoting an important economic interest--namely, to remove the remaining political obstacles barring Soviet purchases of goods required for the internal economy of Orbit states.

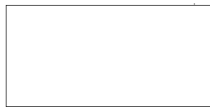
While the general outlines of the Soviet foreign trade program are established by internal economic considerations, there is still some latitude for political opportunism in individual commercial transactions. The USSR can afford, for example, to express its political pique at Australia over the Petrov case by suspending further wool procurement, especially when wool is plentiful elsewhere in the world markets. Similarly, the USSR can protest the Danish refusal to supply tankers by walking out on trade agreement negotiations, particularly when it is prepared to continue some purchases from Denmark without a formal trade agreement. Nor would the Soviet traders be reluctant to stir up a political disturbance by bidding for US-owned surplus stocks when they are seriously in the market for imported butter. The Soviet mixture of politics with commerce in cases such as these has one significant feature: no economic disadvantage is imposed upon the USSR. When economic costs are of some magnitude, as would be the case if the USSR were to mount a program of "benevolent buying" from favored firms or from depressed industries in the West, it is unlikely that the USSR would be prepared to accept economic losses for potential political gains.

In the coming years, however, the growth of the industrial sector of the Soviet economy may well accommodate a limited program of politically motivated foreign economic maneuvers. In its present stage of development, the Soviet economy can spare industrial goods for export with less strain than it can provide its traditional agricultural exports to the West. Aware that the underdeveloped areas of non-Communist Asia and the Middle East provide a fertile ground for political penetration, the USSR may be prepared to accept the limited drain on its economic resources which a modest program of assistance to these countries would entail. The over-all magnitude of such a program would probably not be great. But

the two conditions necessary for politically-inspired Soviet economic moves would be present: the prospects for substantial political gains would be bright and the economic cost to the USSR would be slight.

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ATTACHMENT

Kenneth de Courcy's
Intelligence Digest
October 1954

A SOVIET TRADE WARFARE CONFERENCE

This report comes from a satellite source which has, in the past, given accurate information. At a time when there is considerable relaxation on the part of the western Powers in trade with the Communist countries, the information contained therein is significant.

Secret Invitations

Early in June, the Soviet Government sent out through its Embassies secret invitations to top ranking economists, economic writers, and officials of economic departments in the satellite states. They were invited to an important conference which was held in Sochi from July 5-9.

Each invitation was accompanied by a personal memorandum from Professor Eugen Varga outlining the aims of the conference.

The principal object was to study world economic conditions in the light of the political interests of the U.S.S.R. The memorandum stated that the conference would work out means to put trade more directly in the service of Soviet foreign policy.

Varga said that those attending would be expected to give practical advice as to future policy. The memorandum contained 26 questions for the attention of the experts.

Strong delegations

When the conference opened on July 5, it was presided over by Varga, despite the fact that the Russian delegation of twenty-nine included such big names as Anastas Mikoyan, Maxim Saburov, and Deputy Premier Pervukin.

To the astonishment of all present, one of the Soviet delegates was Voznessensky* of whom nothing had been heard for a long time.

* Voznessensky was formerly chairman of the State Planning Commission of the Soviet Union. He was dismissed in 1949. We reported on the background of his dismissal in Intelligence Digest of August, 1950.

Countries represented were East Germany, Czechoslovakia, Poland, Hungary, Rumania, Bulgaria, Albania (by only one delegate who was apparently invited as a matter of form, because he obviously understood little, if anything, as to what it was all about), North Korea, Red China (represented by 16 delegates headed by Kao-Kang), Viet-minh, and Mongolia. There were also individual experts from Japan, Indonesia, and France.

A Critical Moment in Policy

In his opening remarks, Varga pointed out that the Communist bloc had reached a turning point in policy necessitating far-reaching decisions which might affect the whole future of the human race. Believing that economic factors are decisive in human relations, the Soviet Union, said Varga, had invited leading economists and trade experts to study two main points:

1. What were the economic prospects of the "imperialist" world, and what were the political expectations of the Soviet Union from those prospects?
2. What part should trade play in Soviet policy, and how could it be used for furtherance of the political aims of the Communist bloc?

Nine Sub-Commissions

Varga then divided the conference into nine sub-commissions. Four of these were headed by Chinese, four by Russians, and one by a Pole. These commissions then set up a committee of their chairman, who coordinated their findings. Varga himself presided over the committee of chairmen.

The Communists Expect a Western Economic Crisis

The findings of the sub-commissions were finally summarized in a long memorandum to the Soviet and satellite governments, which was drawn up in Russian and Chinese. This memorandum -- which contained a great deal of nonsense -- failed to take into account the fact that both the U.S. and Britain have learnt a great deal since 1929. It stated that, in the opinion of the specialists, the western world is threatened by another economic crisis which, if helped along, could break in about two years time.

It pointed out that a study of western economic conditions, and particularly those of the United States, showed that, just as before the 1929 crisis, agricultural prices are slowly slipping and farm incomes are being reduced.

Furthermore, it was stated that nonmilitary industries are going through phases of readjustment, due to underconsumption by the general population. Social and industrial disturbances in some countries indicate that the masses are beginning subconsciously to feel the danger of approaching unemployment.

Thus, say the Communist experts, all the conditions are present for a nice slump. The only thing which keeps "imperialist" economies going is the rearmament programme and the prosperity of all industries directly or indirectly connected with armaments. In addition, military stockpiling is keeping up the demand for raw materials.

Slowing Down Western Armaments

The conclusion which was drawn from these premises was that, if and when western rearmament is slowed down, the economic crisis will break out. This, it was said, would be especially true in the United States, where most of the population is in debt, and where the standard of living has reached artificially high proportions.

No Effort to be Spared

The Communist economists therefore advised that no effort should be spared to slow down western rearmament efforts by creating a feeling of peace and security, which will lead to a useful economic crash.

The main interest of the Soviet Union, therefore, in the opinion of the conference, is to step up the peace offensive until the western economic crisis is in full swing.

Trade as a Political Weapon

The final memorandum of the conference also went on to point out that it was in the interests of the Soviet bloc to organize the exchange of their consumer goods against capital goods from the west. In order not to make this too obvious, a certain amount of capital goods should be exported by the Communist countries, but, in general, these goods should be kept for home projects.

Another point put forward was that it was, if anything, more important to talk about trade than actually to carry it out. Recent conferences, it was said, have proved this, and have deepened the rift in the west.

A special case was made for trade between Japan and China. It was decided that Chinese raw materials should be exported to Japan, because this was the best way in which to influence Japanese politics.

The strongest possible emphasis was placed on the concept that trade with the western democracies was a weapon in the political fight, rather than a means to obtain scarce goods or commodities except in certain cases of materials not produced within the Soviet bloc.

A Common Council for Trade Warfare

The conference report had some hard things to say about several of the satellites who were considered not yet fully to have taken this view of international trade, and are still influenced by "capitalist greed."

The report concluded by suggesting the immediate setting up of a Common Council for Trade Warfare to coordinate trade with strategy. This Council should meet every six weeks, and should be made up of both trade experts and political authorities. It should be the highest authority for trade policies throughout the Soviet Union, China, and the satellites. It should have authority to pronounce on any trade agreement between any Communist country and the west. Headquarters should be in Moscow.

It is not immediately material that the Communist appreciation of the economic future of the west is inaccurate, or could quite easily be made so by full exploitation of the enormous resources of the United States and the British Commonwealth. What is of interest is Russia's line of thought -- absurd though it may prove to be.